

State of South Dakota

SEVENTY-NINTH SESSION
LEGISLATIVE ASSEMBLY, 2004

554J0434

HOUSE BILL NO. 1040

Introduced by: The Committee on Retirement Laws at the request of the South Dakota Retirement System

1 FOR AN ACT ENTITLED, An Act to revise the actuarial reporting procedures by the South
2 Dakota Retirement System and to revise certain actuarial terms.

3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF SOUTH DAKOTA:

4 Section 1. That § 3-12-122 be amended to read as follows:

5 3-12-122. ~~If the current funding as a percentage of covered payroll is less than the actuarial~~
6 ~~requirement necessary to fund the system over a period of fifty years and has decreased over the~~
7 ~~period encompassed by three consecutive actuarial valuations, or if the funding ratio is less than~~
8 ~~eighty percent and has decreased over the period encompassed by any three actuarial valuations,~~
9 ~~then the Board of Trustees shall review the financing of the system and make a report to the~~
10 ~~Governor and the Legislature on the actuarial balance of the system and shall recommend~~
11 ~~benefit changes as necessary to meet the actuarial requirement and to improve the funding ratio~~
12 ~~in future valuations.~~

13 ~~—This section may not apply if the statutes governing the system in effect on January 1, 1986,~~
14 ~~other than the statutes regulating benefit levels, are amended in a way that adversely affects the~~
15 ~~funding of the system.~~ The board shall review the funding of the system and shall make a report



1 to the Governor and the Retirement Laws Committee if any of the following exists as of the
2 latest annual actuarial valuation of the system:

3 (1) The contributions do not equal the actuarial requirement for funding;

4 (2) The funded ratio is less than eighty percent, or a ratio based on the market value of
5 assets is less than eighty percent; or

6 (3) The market value of assets is less than ninety percent of the actuarial value of assets.

7 The report shall include an analysis of the conditions required for an improvement of the
8 funded status of the system and recommendations for the circumstances and timing for any
9 future benefit changes in actuarial assumptions. If any of the conditions set out by this section
10 exist for a period of three consecutive annual actuarial valuations, benefit reductions,
11 contribution changes, or both, shall be recommended by the board to the Governor and the
12 Retirement Laws Committee, effective as soon as possible, to improve the funded status of the
13 system.

14 Section 2. That § 3-12-121 be amended to read as follows:

15 3-12-121. The actuarial valuation required by § 3-12-120 shall be based on actuarial
16 assumptions adopted by the Board of Trustees as a result of an actuarial experience analysis.
17 The board ~~shall~~ may not make any change in the actuarial assumptions unless the approved
18 actuary retained to make the actuarial valuation ~~shall certify~~ certifies that ~~such~~ the change is
19 reasonable. If the board makes any such change, it shall report the change to the Governor and
20 to the Retirement Laws Committee. The report shall include the actuary's and board's analysis
21 of the conditions that led to the change.

22 Section 3. That subdivision (4) of § 3-12-47 be amended to read as follows:

23 (4) "Actuarial requirement," the normal cost; and the interest on and amortization of the
24 unfunded ~~entry age normal level contribution requirements~~ actuarial accrued liability

1 accumulated to date over a ~~fifty~~ thirty year period, ~~and the administrative expense of~~
2 ~~the system~~; all expressed in terms of a percentage of covered payroll;

3 Section 4. That subdivision (5) of § 3-12-47 be amended to read as follows:

4 (5) "Actuarial ~~survey~~ experience analysis," a periodic report which ~~furnishes~~ reviews
5 basic experience data and furnishes actuarial analysis which ~~substantiate~~ substantiates
6 the assumptions adopted for the purpose of making an actuarial valuation of the
7 system;

8 Section 5. That subdivision (6) of § 3-12-47 be amended to read as follows:

9 (6) "Actuarial valuation," a ~~calculation to determine the normal cost, the entry age~~
10 ~~normal level contribution requirements accumulated to date according to entry age~~
11 ~~normal cost method, and the present value of the benefits earned to date of a benefit~~
12 ~~plan projection of the present value of all benefits and the current funded status of the~~
13 system, based upon stated assumptions as to rates of interest, mortality, disability,
14 salary progressions, withdrawal, and retirement as established by a periodic actuarial
15 survey experience analysis which takes into account census data of all active
16 members, vested terminated members and retired members and their beneficiaries
17 under the system;

18 Section 6. That subdivision (32) of § 3-12-47 be repealed.

19 (32) "~~Entry age normal contribution requirements accumulated to date,~~" ~~the equivalent to~~
20 ~~the total entry age normal requirements less the present value of the entry age normal~~
21 ~~contributions expected to be made in the future;~~

22 Section 7. That subdivision (38) of § 3-12-47 be amended to read as follows:

23 (38) "Funding-Funded ratio," the ~~net~~ actuarial value of assets divided by the ~~present value~~
24 ~~of the benefits earned to date~~ actuarial accrued liability;

Section 8. That subdivision (46) of § 3-12-47 be repealed.

(46) ~~"Net assets," the total assets of the system as of the valuation date, valuing common stocks on adjusted cost basis that takes market appreciation into account on a rational and systematic basis and fixed income investments at amortized cost, less current liabilities other than benefits payable under the system;~~

Section 9. That subdivision (57) of § 3-12-47 be amended to read as follows:

(57) "Present value of benefits earned to date," ~~the equivalent to~~ the present value of the benefits currently being paid to retired members and their beneficiaries; and the present value of ~~the pension~~ benefits payable at ~~normal~~ retirement to active members, based on their earnings and credited service to date of the actuarial valuation;

Section 10. That subdivision (72) of § 3-12-47 be amended to read as follows:

(72) ~~"Unfunded entry age normal contribution requirements accumulated to date," the equivalent to the total entry age normal requirements less the net assets on hand, the present value of entry age normal level contribution requirements, (i.e., the present value of future normal costs) and the present value of any state, employer or member contributions that are scheduled to terminate at a fixed, future date~~ actuarial accrued liability," the actuarial accrued liability less the actuarial value of assets;

Section 11. That § 3-12-47 be amended by adding thereto NEW SUBDIVISIONS to read as follows:

"Actuarial accrued liability," the present value of all benefits less the present value of future normal cost contributions;

"Actuarial value of assets," the total assets of the system, taking market appreciation into account on a rational and systematic basis;

"Normal cost," the expected long-term cost of the system benefits and expenses expressed

as a percentage of payroll;

"Market value of assets," the total assets of the system at fair market value;

"Present value of all benefits," the present value of all benefits expected to be paid to all retired, terminated, and active members and beneficiaries, based on past and future credited service and future compensation increases.

Section 12. That § 3-12-69 be amended to read as follows:

3-12-69. Employees of an eligible political subdivision or public corporation not participating in the systems consolidated into the system created by this chapter, may become a participating unit in the system ~~provided such~~ if the unit commits to deposit an amount equal to the present value of the benefits earned to date, based on the employee's prior service to the unit to be covered by the system, ~~multiplied by the funding ratio on the date participation is to commence~~. The expense of the actuarial determination of this amount shall be borne by the applicant. All eligible employees of an applicant shall participate in the system upon admission. If the unit is unable to deposit this amount in a single sum, the unit shall have the option to pay the amount by periodic level installments over a period up to twenty years, the value of which, when discounted for interest at the effective rate, is equal to the amount due at the date of participation.

Section 13. That § 3-12-120 be amended to read as follows:

3-12-120. To determine and verify the adequacy of the members and employer contributions to the system, an actuarial valuation of the system shall be made by an approved actuary annually.

The actuarial valuation shall include:

- (1) A demonstration of the relationship of the current member and employer contributions, expressed as a percentage of payroll, to the actuarial requirement; and

- 1 (2) The current year's ~~funding~~ funded ratio as well as the ratios from the prior actuarial
- 2 valuations performed after July 1, 1974.